

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Villa Feliciana Medical Complex  
Department of Health and Hospitals  
State of Louisiana  
Jackson, Louisiana

April 3, 2002



***Financial and Compliance Audit Division***

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***Daniel G. Kyle, Ph.D., CPA, CFE  
Legislative Auditor***

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**Daniel G. Kyle, Ph.D., CPA, CFE**

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**VILLA FELICIANA MEDICAL COMPLEX  
DEPARTMENT OF HEALTH AND HOSPITALS  
STATE OF LOUISIANA  
Jackson, Louisiana**

Procedural Report  
Dated March 18, 2002

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

April 3, 2002



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

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March 18, 2002

**VILLA FELICIANA MEDICAL COMPLEX**  
**DEPARTMENT OF HEALTH AND HOSPITALS**  
**STATE OF LOUISIANA**  
Jackson, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Villa Feliciana Medical Complex. Our procedures included (1) a review of the medical complex's internal control; (2) tests of financial transactions for the years ending June 30, 2002, and June 30, 2001; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 2002, and June 30, 2001; and (4) a review of compliance with prior year report recommendations. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management and other selected personnel and evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

The Annual Fiscal Reports of the Villa Feliciana Medical Complex were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The medical complex's accounts, under the Department of Health and Hospitals, are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior report on the Villa Feliciana Medical Complex, dated April 7, 2000, we reported a finding relating to inadequate inventory controls. The finding is addressed again in this report.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

**Lack of Inventory Controls**

For the third consecutive audit, Villa Feliciana Medical Complex does not have adequate control procedures for its inventory of materials and supplies, including drugs. Adequate internal control should provide reasonable assurance that inventory items are properly accounted for and safeguarded. In addition, good internal control requires periodic reconciliations of physical inventory counts to accounting records to ensure that all items are in agreement and that no errors and/or fraud have occurred.

## LEGISLATIVE AUDITOR

### VILLA FELICIANA MEDICAL COMPLEX DEPARTMENT OF HEALTH AND HOSPITALS STATE OF LOUISIANA

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A review of the medical complex's inventory controls disclosed the following weaknesses:

- Although management purchased pharmacy inventory software in November 2000, the software was not used for inventory tracking until January 2002. Management manually tracked Class 2 drugs (narcotics) but did not track the non-Class 2 drug inventory. Pharmacy's physical inventory at December 31, 2001, was valued at \$146,109.
- Management did not reconcile differences totaling \$49,289 between the June 30, 2001, physical inventory values of the pharmacy, central supply, and warehouse inventories and the June 30, 2001, recorded values for these inventories. Total inventory of \$280,170 was reported in the medical complex's 2001 Annual Fiscal Report.

These conditions exist because management has not established and implemented control procedures that include tracking the non-Class 2 drug inventory and the investigation of differences between the physical and recorded inventory amounts. Failure to establish adequate inventory controls increases the risk that expenditures and ending inventory could be misstated. Furthermore, failure to investigate differences increases the risk that errors and/or fraud could occur and remain undetected.

Management should implement the pharmacy inventory software to ensure that inventory is properly accounted for and safeguarded and establish procedures to identify and resolve differences in a timely manner between physical inventory totals and recorded amounts. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

#### **Procedures for Safeguarding Patient Funds Not Consistently Followed**

Villa Feliciana Medical Complex personnel did not consistently follow management's established procedures for documenting the payment of a patient's personal funds to the patient. Management established the internal policies and procedures to safeguard the personal funds of the patients housed at the facility. The procedures regarding withdrawals from patient funds require (1) a notation of amount, (2) notation of the reason for the withdrawal of funds, (3) the signature of the patient's social worker, (4) the signature or mark of the patient, (5) a witness when patients cannot sign their names, (6) the signature of the person receiving the funds (this should not be the same as the witness), and (7) when applicable, supporting documentation (e.g., receipts) for purchases. *Good internal control requires that proper documentation and support be obtained to safeguard assets and detect errors and/or fraud in a timely manner.*



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Audit procedures included a review of 364 withdrawals of patient funds totaling \$7,393 processed during May 2001 through November 2001. The following discrepancies were noted:

- For 206 (57%) patient withdrawals, the reason for withdrawal was not noted. Without proper notation, determination of whether a receipt is required is difficult and the actual use of the funds is unknown.
- For 173 (48%) patient withdrawals, the person witnessing the mark of patients who could not sign their names was the same person that received the funds.
- For 19 patient withdrawals totaling \$313, the social worker provided the patient's mark and received the funds instead of obtaining a witness' signature and/or having a separate party receive the funds.

These exceptions occurred because agency personnel have not placed sufficient emphasis on adherence to established policies and procedures. Lack of adherence increases the risk that errors and/or fraud could occur and not be detected timely.

Management should take the necessary steps to ensure that employees associated with patient funds comply with internal policies and procedures relating to those funds. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the medical complex. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the medical complex should be considered in reaching decisions on courses of action.

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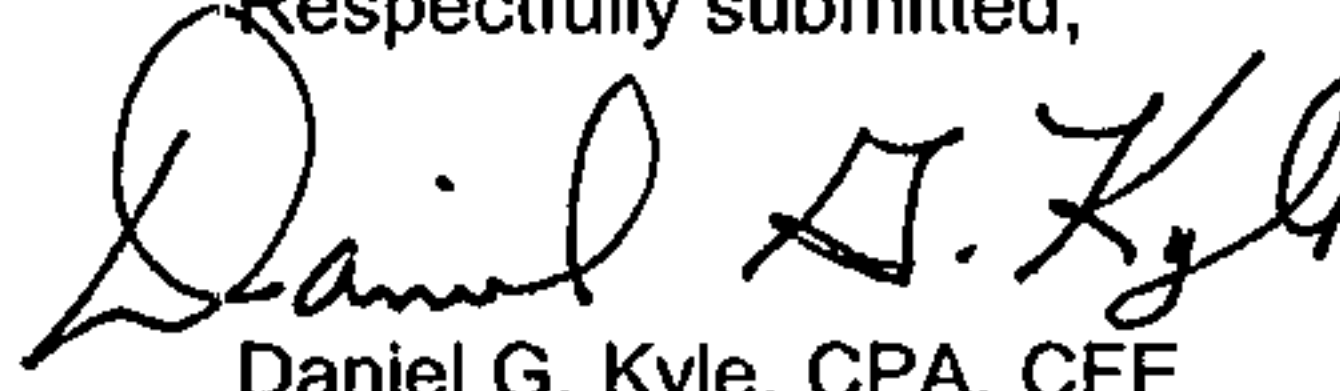
VILLA FELICIANA MEDICAL COMPLEX  
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This report is intended for the information and use of the medical complex and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is fluid and cursive, with a large initial "D" and a stylized "K".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

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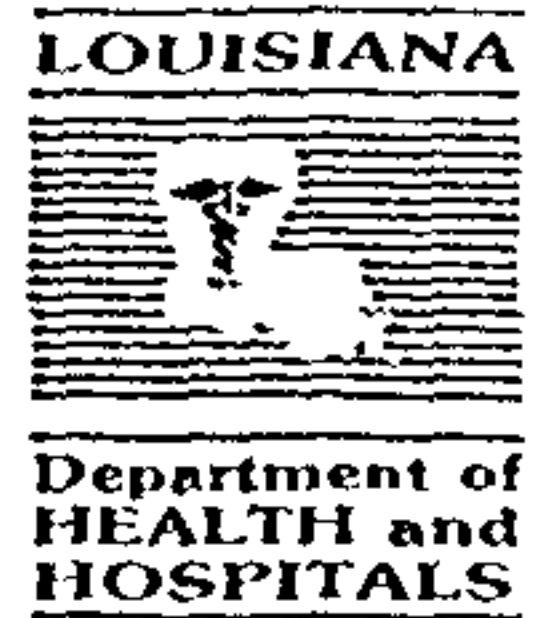
## Appendix A

### Management's Corrective Action Plans and Responses to the Findings and Recommendations





STATE OF LOUISIANA  
DEPARTMENT OF HEALTH AND HOSPITALS



M. J. "Mike" Foster, Jr.  
GOVERNOR

March 04, 2002

David W. Hood  
SECRETARY

Dr. Daniel G. Kyle CPA, CFE  
Legislative Auditor  
State of Louisiana  
Post Office Box 94397  
Baton Rouge, Louisiana 70804-9397

**RE: Response to Audit Finding - Lack of Inventory Control**

Dear Mr. Kyle,

The following representation is the official response of this agency to the referenced audit finding.

**TITLE:** Lack of inventory control in Central Supply, Warehouse, and Pharmacy.

**CONCURRENCE:** The agency concurs with the individual findings.

**CORRECTIVE ACTION PLAN:** The Central Supply Department, Warehouse and Pharmacy have installed software to manage and track inventory. This system is sufficient in maintaining adequate internal control of supplies and materials. All supplies and materials are currently added to the inventory software. We have reconciled the inventories as of June 30, 2001 and have reduced the amount to \$6,487.00 in Central Supply, \$422.00 in Pharmacy and \$582.00 in the Warehouse. Please reference attached Sheet.

The Associate Administrator position became vacant last year therefore quality management was not utilized or implemented. Changes will occur in the Fiscal Office and Management will reorganize in order to implement quality management policy and procedures that will ensure compliance of our agency. Policy and Procedures have currently been implemented as of 02/01/02. Inventory tracking will be followed on a month to month basis by comparing spreadsheets with the computer printouts. Inventory will be reconciled and reviewed on a quarterly basis in order to eliminate discrepancies in a timely manner.

**RESPONSIBLE PARTY:** James E. Bradham, Administrator.

**ANTICIPATED COMPLETION DATE:** Currently in place.

Should you have any questions regarding this response, please feel free to contact this office.

James E. Bradham

ETC Administrator II

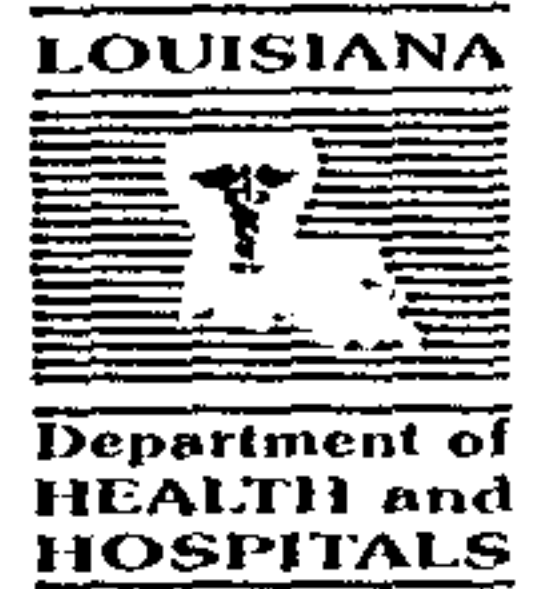
225-634-4017



M. J. "Mike" Foster, Jr.  
GOVERNOR

STATE OF LOUISIANA  
DEPARTMENT OF HEALTH AND HOSPITALS

March 04, 2002



David W. Hood  
SECRETARY

Dr. Daniel G. Kyle CPA, CFE  
Legislative Auditor  
State of Louisiana  
Post Office Box 94397  
Baton Rouge, Louisiana 70804-9397

**RE: Response to Audit Finding - Procedures for Safeguarding Patient Funds not Consistently Followed.**

Dear Mr. Kyle,

The following representation is the official response of this agency to the referenced audit finding.

**TITLE:** Procedures for Safeguarding Patient Funds not Consistently Followed.

**CONCURRENCE:** The agency concurs with the individual finding.

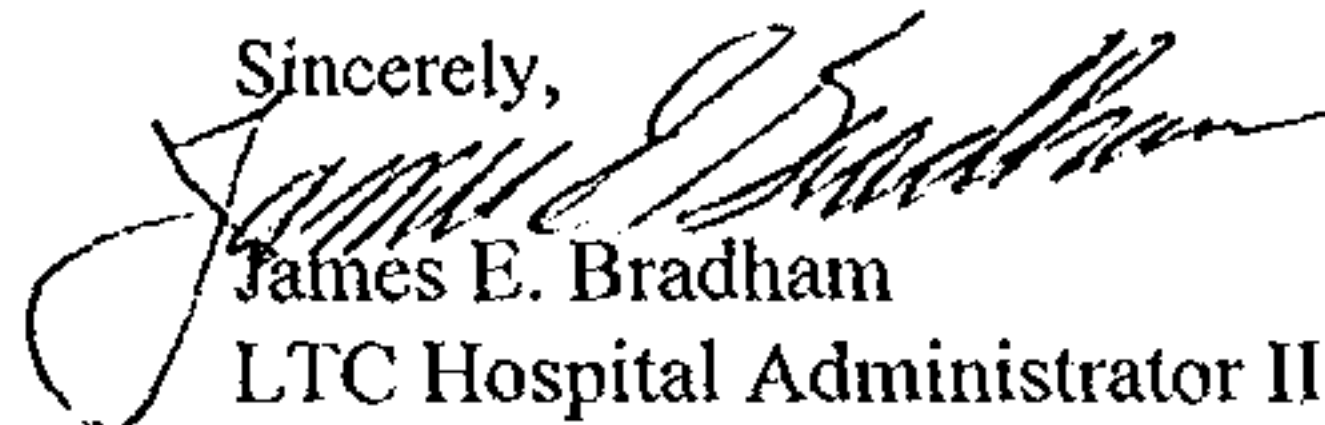
**CORRECTIVE ACTION PLAN:** Policies and Procedures are currently in place and will be adhered to in order ensure good internal control. Employees associated with patient funds will comply with policies and procedures. All withdrawals will have reason noted and receipts attached. Management will review monthly to ensure compliance.

**RESPONSIBLE PARTY:** Mary Ann Castillo, Hospital Social Worker 2 Manager

**ANTICIPATED COMPLETION DATE:** Currently in place.

Should you have any questions regarding this response, please feel free to contact this office.

Sincerely,

  
James E. Bradham  
LTC Hospital Administrator II  
225-634-4017